

ANNUAL REPORT



2008/2009

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1. Introduction and Overview

The annual report is an account of the Municipality's achievements in the year under review, and as with any rigorous reporting instrument it does not hesitate in pointing out where the Municipality has fallen short.

The purpose of an annual report is given as follows:

- Provide a record of the activities of the municipality during the financial year.
- Report on performance against the budget for the financial year.
- Promote accountability to the local community for the decisions made throughout the year.

The annual report must include the following:

- Annual financial statements of the municipality;
- Auditor-General's audit report in terms of section 126(3) of the MFMA;
- Auditor-General's audit report in terms of section 45 (b) of the Municipal Systems Act no 32 of 2000;
- Annual performance report of the municipality prepared in terms of Section 46 of the the Municipal Systems Act no 32 of 2000;
- Assessment of any arrears;
- Assessment of municipality's performance against the measurable performance objectives referred to in section 17 (3) (b) of the MFMA for revenue collection;
- Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports;
- Explanations in connection to financial statements;
- Any information as determined by the municipality;
- Recommendations of the audit committee;
- Any other information as may be prescribed.

1.1 Foreword of the Mayor



Mayor of !Kheis Municipality: Councillor. S.M Jansen

Under the new constitution !Kheis Municipality has been awarded mayor developmental responsibilities to ensure that the quality of life for its citizens is improved. The new role for local government includes provision of basic services, creation of jobs, promoting democracy and accountability and the eradication of poverty.

Unfortunately these new responsibilities came with legal requirements and changes in accounting practices which brought along new challenges for the municipality and its staff. The municipality being classified as a low capacity municipality is therefore forced to make use of all extensions and exemptions granted to low capacity municipalities. It is however this municipality's mission to comply with all these requirements in the long run.

1.2 Overview of the Municipality

Geography

!Kheis covers an area of approximately 7 225 squares kilometers.

Demography

!Kheis Municipality had a total population of approximately 16 027 according to the community survey by censuses. !Kheis local Municipality is divided into 4 wards, and surrounding farms. According to the 2007 community survey censuses, the population in the !Kheis area was 673 Black African, 13 784 Coloured, 1 494 White and 6 Indian.

Females generally represent just over 51% of the population in most of the indicated areas. The figure illustrates that 49% of households in !Kheis area are female headed.

Employment

The economically active population (people aged 18 and above that are able and willing to work) of the !Kheis area is estimated at 27%, and official unemployment rates are lower than the provincial and national levels.

A total of 4 427 people are estimated to be engaged in the formal sector.

1.3 Executive Summary by Municipal Manager

1.3.1 Vision and Mission Statement of the Municipality

Vision

“The development of an institution, focussing on transparent, loyal and effective service delivery to the residents of the !Kheis Municipal Area.”

Mission

‘To promote economic development to the advantage of the communities within the boundaries of the !Kheis Municipality this will be done by the establishment and maintenance of an effective administration and a safe environment in order to attract tourists and investors to the area’.

2. Human Resource and other Organizational Management

The organizational structure of the municipality consists of a workers corps of 64. The number of permanent employees is 64 and 13 vacancies.

2.1 Number of staff per function

!Kheis Municipality Summary of personal number per function	Audited Actual
Municipality	
Councilors	7
Administration	31
Water	10
Public Works	9
Sanitation	7
Total Personal Numbers	64

2.2 Skills and level of education attained by staff

!Kheis Municipality Summary of personal numbers – Skills Level	Audited Actual
Councillors (Political officer bearers)	7
Senior Managers including Municipal Manager	2
Other manager	3
Technical/ Professional staff	
Other staff (Clerical, labourers, etc.	52
Total Personal Number	64

2.3 Trends on staff expenditure

➤ Total Staff Expenditure

Ratio Salaries Personnel and Council : Total Expenditure

R6 069 867 : R12 093 879

50.1%

Comment

The ratio of **50.1%** is and is not in line with the national norm of **35%**.

2.4 Disclosure on Councillor's and Senior Management Benefits

The disclosure on Councillor and Senior Management benefits for 2008/09 as disclosed in note 15 and 16 in the financial statements (page 24) are in accordance with the remuneration of Office Bearer act. For more detail see Annual Financial Statements - Annexure A.

3 Annual Financial Statements and related financial information

The annual financial statements have not been compiled within the prescribed period and is attached hereto as Appendix (A) The financial statements have been prepared in accordance with standards laid down by the Institute of Municipal Finance Officers in its Code of Accounting Practice(1997) and Report on Published Annual Financial Statements (Second Edition-January 1996).

3.1 Analyses of financial data on Financial Statements 2008/2009.

The following key financial indicators have been analyzed:

3.1.1 Analyses of operating income

➤ **Total Income**

Ratio of Internal Income: External Income

R 6 463 676 : R 8 406 670

1 : 1.3

Comment

For each Rand the Municipality generates it receives grants of R1.30 therefore for more than **56.5%** of the income the municipality depend on grants.

➤ **Difference between budgeted and actual Income**

Budgeted	Actual	% Difference
R 15 166 490	R 14 870 347	-1.95%

Comment

All though the difference of -1.95% is very small the problems lay in actual income realization.

3.1.2 Analyses of operating expenditure.

➤ **Total Maintenance**

Ratio Maintenance : Total Expenditure

R 505 044 : R 12 093 879

4.17%

Comment

Maintenance translate into percentage of total expenditure: **4.17%**

➤ **Difference between budgeted and actual expenditure.**

Budgeted	Actual	% Difference
R 15 330 373	R 12 093 879	21% Under Spending

3.1.3 Creditors age analyses and payment days

	2007/8	2008/9	In / (Decrease)
Creditors	R 3 794 170	R 6 758 751	R 2 964 581

Comment

The creditors increase with R 2 964 5814 from the previous financial year.

3.1.4 Operating Capital Ratio

$$\begin{aligned} &\text{➤ } \textbf{Total Equity} \\ &\textbf{Current Assets : Current Liabilities} \\ &\textbf{R 16 128 386 : R 8 866 058} \\ &\textbf{1.89 : 1} \end{aligned}$$

Comment

The operation capital ratio is well within the National Standard of 2 : 1

3.2 Basic Service Delivery Component

The municipality is expected to provide water, sanitation, electricity, refuse removal and other basic services to indigent households.

The characteristics of the basic services component are:

- Supporting only poor households earning less than R2020.00 p/month
- Distinguishing between poor households provided with services and those provided with lesser or no services
- Recognising water reticulation, sanitation, refuse removal and electricity reticulation as the core services.
- Providing for environmental health care service to all households, not only poor ones.

On 30 June 2009, !Kheis had 952 registered indigent households. The municipality provides the following free basic services to these indigents:

Water	: The first 6kl free of water is free
Sewerage	: R 52. 66 rebate per month on sewerage fees
Refuse Removal	: R 72.38 rebate per month on refuse removal
Electricity	: The first 50 kwh of electricity is free

The total subsidy provided for the 2008/09 financial year amounted to R 2 187 300

4. Audit Report on Financial Statements.

Audit activities by the Auditor-General commenced in September 2009. The Audit Report from the Auditor-General was not received by the time of the compilation of this report. A draft Audit Report was received and in terms of section 126 of the MFMA the Report of the Auditor-General and is attached as (Annexure B)

The Municipality did not do well on the Audit and for the 3rd time received a “Disclaimer”

5. Audit Recovery Plan.

The Audit Recovery Plan addresses all the audit queries and put forward a plan to work towards a clean Audit Report by the year 2012.

For detail on the Recovery Plan see (Annexure C)

6. Performance Management Report.

Introduction

Section 46 of the Local Government: Municipal System Act No 32 of 2000, as amended by section 6 of the Local Government: Municipal Systems Amendment Act No 44 of 2003 states as follow:

“Annual Performance Reports

46 (1) A municipality must prepare for each financial year a performance report reflecting:

- a) the performance of the municipality and of each external service provider during that financial year;
- b) a comparison of the performance referred to in paragraph (a) with targets set for and performance in the previous financial year; and
- c) measures taken to improve performance

46 (2) An annual performance must form part of the municipality’s annual report in terms of Chapter 12 of the Municipal Finance Management Act”

6.1 Targets and Performance

One of the big shortcomings in Kheis Municipality is the fact that no PM System exist. Performance as far as Financial Performance is best illustrated in the Annual Financial Statements. (See annexure A, appendix D) Performance as far service delivery is concern will be addressed in the discussion of the IDP.

The development of a Performance Management System will receive high priority in the year 2009/2010.

7. Integrated Development Plan.

7.1 Analyzing Service Delivery Targets

The following Service Delivery Targets were set in the IDP for the 2008/9 financial year:

- **Bulk Water Supply at Gariep:** In progress and almost complete.
- **Oxidation Dam at Groblershoop:** Completed in 2008/9 financial year
- **Upgrading of canal from Boegoeberg to Matjiesriver** Due to a lack of funds this target is postponed to December 2012. This is also the responsibility of BWUA who applied for funding by the DBSA.
- **Subsidy houses in all Settlements:** This target is been revised 200 houses in 2010/11, 200 houses in 2011/12 and 400 houses in 2012/13.

- **Surveying and Registration of 800 new sites:** This work is in progress and will be completed by June 2010
- **Managing Storm water in all Settlements:** This work is in the Business Plan Stage with revised target date of June 2012.
- **Building of oxidation dams at Wegdraai, Grootdrink en Topline:** Revised Business Plan is been approved and completion date is rescheduled for June 2011.
- **Development and upgrading of refuse dumping sites at Groblershoop, Boegoeberg, Wegdraai, Topline en Grootdrink:** These targets are been revised and rescheduled for completion June 2012.
- **Development and building of a Taxi Rank:** Business Plan is submitted to the Dept Public Works and date for completion is rescheduled for June 2012.
- **Upgrading of Boegoeberg Dam Resort:** Business Plan is submitted waiting for approval by DEAT and DBSA.

7.2 Backlogs.

In paragraph 2.5.1 the backlogs were rescheduled and new target dates were set.

For detail on the IDP see (Annexure C)

8. Assessment of arrears on municipal taxes and services charges

Debtors recovering days are 874 days. This means a consumer takes on average 29 months to settle their municipal accounts. The norm for municipalities is 100 days

8.1 Debtors age analyses and payment percentages.

- **Debtors comparison with previous year**

Debtors	
<u>2007/2008</u>	R 8 821 752
<u>2008/2009</u>	R 15 455 194
<u>% Difference</u>	57% increase

Comment

The total debtors increased with **57% (R 6 633 442)**.

➤ Levied Income Materialized

Actual levied Income	Budget levied Income	% Debtors
R 5 592 387	R 6 050 407	0.92% (R 458 020)

Comment

The levied income was **0.92% (R 458 020)** more than what was budget for. If payment was done regular by debtors it would have put the municipality in a **R 458 020** better position.

➤ Debtor age analyses

$$\begin{array}{rcl} \text{Debtors / R 13 389 600} & & \text{365 days} \\ \hline & \text{X} & \hline \text{Levies / R 5 592 387} & & \text{1} \\ & & \text{874 days} \end{array}$$

Comment

With the above calculation we discover that the municipality takes average 874 days to recover its debt and the municipality must pay its creditors within 30 or 60 days. This result in a serious cash flow problem for the municipality.

Serious consideration must be given to the implementation of the Debt Collection Policy.

9. Analyses compliance with legal requirements

- Water services development plan. YES

- Financial plan.
- Capital investment plan.
- Municipal action plan.
- Integrated institutional plan. NO
- Performance management system. NO
- Spatial development framework. NO
- Local economic development plan / strategy. YES
- Integrated tourism plan. YES
- Disaster management plan. NO
- Hiv/aids strategy. NO
- Integrated environmental management plan. NO
- Integrated waste management plan. NO
- Poverty reduction and gender equity plan. NO

Where the Municipality complies, plans are available on request. The areas where the Municipality do not complies will receive urgent attention in the coming financial years also depending on available finances.

10. Conclusion

From the above it is clear that the municipality is facing serious financial problems due to the following:

- The Municipality is highly dependent on its equitable share as a source of income, as a very little income of its own is generated. For 2008/09 the equitable share present 47.69% or R7 066m of the municipality's income.
- Debtors increase with more than 6 million rand; this is about 57% of billed consumer income.
- Debtors take longer than 29 month to settle their debts.

The abovementioned can mainly be contributed to the high rate of unemployment which accounts for the low payment rate amongst certain members of the community.

The municipality relied heavily on grants from National Government to address the infrastructural needs of the communities. Despite the fact that the municipality has been able to record successes and surpassed expectations in delivery on its mandate, only 4.17% of total

operating expenditure were utilized for operation and maintenance purposes. If the total value of assets is taken in consideration the picture even become bleaker, and can it be concluded that as a result of cash flow constraints maintenance are limited to actual repairs and no maintenance plans are in place.

For the municipality to continue service delivery in terms of its mandate the following challenges have to be address:

- Strict adherence to credit control policy
- Implementation of Local Economic Development strategy and development of poverty reduction plan.
- Re-visit budget process and ensure that the cost for maintenance based on maintenance plans is included in the budget.
- Implementation of audit recovery plan.
- Compliance with all legal requirements.